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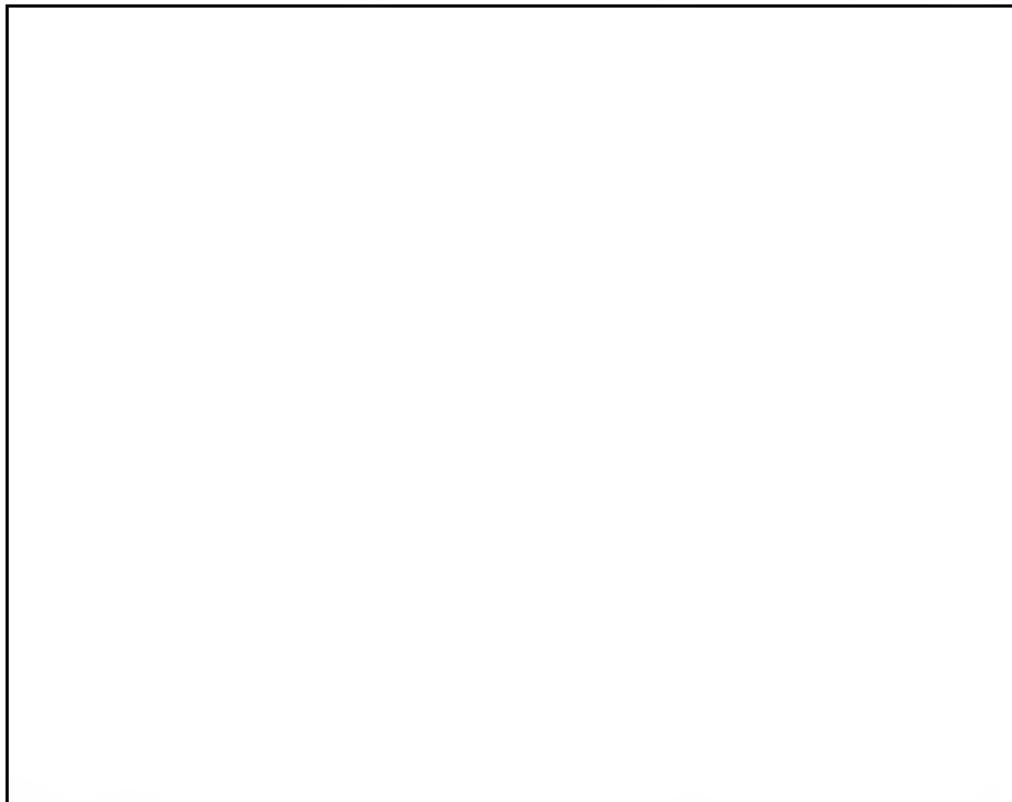
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State Dept. review completed

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**1. LARGER-SCALE VIOLENCE SEEN IMMINENT
IN BUDAPEST**

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[REDACTED]

The American legation in Budapest expects outbreaks of violence in Budapest this week, larger in scale than the worker eruptions of last week. The legation sees no evidence of any impending compromise between the regime and the population, and notes that labor unrest has grown as a result of the regime's harsh policies and that the recent extension of martial law in Hungary is "foreboding."

Recent reports reaching the legation claim that Premier Kadar over the week end had informed a delegation of the Peasant Party that the Soviets will remain, Nagy is not returning, Kadar is not resigning, and the delegation had better go home and get to work.

Comment

Press reports from Vienna allege that posters in Budapest are calling for a new revolt on 26 January, urging the people to "stand by" until that date. Although a full-scale, nationwide uprising appears unlikely, the regime has admitted its concern about a possible new and violent phase of the revolution, and intends to crack down "mercilessly" on all "enemies."

The labor unrest reached a high point on Csepel Island on 11 January when demonstrating workers attacked with bare hands Hungarian military forces sent to control them, resulting in two worker deaths and five or six wounded. Soviet troops called to Csepel stopped at the main gate and did not fire. Further outbreaks of violence of this nature, initiated by defiant workers, appear almost inevitable, both on Csepel and within Budapest.

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2. POSSIBLE RESIGNATION OF IRAQI PRIME MINISTER

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Fad hil Jamali, present head of the Iraqi delegation to the United Nations and former prime minister, is slated to replace Nuri Said.

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Nuri expected to continue to influence the government from behind the scenes. No further cabinet changes are contemplated.

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Comment

Despite strong internal and external pressures for Nuri to step down, this is the first indication the veteran Iraqi leader may be seriously considering resigning. Nuri may feel his departure would help to heal Iraq's strained relations with the other Arab states.

Iraqi policy would be unlikely to change substantially under Jamali. He is strongly pro-Western, outspokenly anti-Communist, and represents the liberal and reformist trend within the ruling group in Iraq. He does not have a substantial personal following in Iraq, however, and would probably be unable to withstand Arab nationalist pressures as successfully as Nuri has done in the past.

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3. FALL OF INDONESIAN GOVERNMENT
REPORTED IMMINENT

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The deputy chairman of the Nahdlatul Ulama, the second largest party in the Indonesian cabinet, told the press that his party has decided "to persuade the government to resign." Without the NU the coalition cabinet led by the National Party would no longer have a majority in parliament. The call for the cabinet's resignation may be delayed until after

Prime Minister Ali addresses parliament, which convenes on 21 January.

In Djakarta, the press indicates that President Sukarno is about to announce his plan to impose a state of war and siege over the entire nation and to set up a "revolutionary council" under his own leadership.

Merdeka--a Djakarta daily which frequently speaks for Prime Minister Ali's National Party--has published further details of the proposal, probably to elicit political and regional reactions. According to Merdeka, the council would have a membership of 14 and would include representatives of the military, youth and "mass organizations," and religious, nationalist and Marxist political groupings.

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4. THE SINO-POLISH COMMUNIQUE

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The joint communiqué issued in Poland on 16 January at the close of Chou En-lai's visit suggests Sino-Soviet ratification of Poland's recently won position of greater independence--at least with respect to matters of internal policy. The statement reaffirms that the development of socialism must take into consideration the conditions prevailing in different countries.

On the question of intra-Orbit relations, the communiqué insists on the principle of equality and respect for national sovereignty. Soviet leadership of the bloc, emphasized in recent Chinese statements, is not mentioned.

At the same time, the communiqué's emphasis on bloc solidarity based on a common ideology and a common view of world affairs reflects Chou's success in his efforts to obtain closer identification of the Gomulka regime with the bloc. Standard Communist criticism of Western policy in Europe and the Middle East is repeated and much of the communiqué is devoted to the dangers of Western aggression and subversion.

Chou failed, however, to obtain open Polish endorsement for either the Soviet intervention in Hungary or the standard line that the Hungarian insurrection was the result of capitalist subversion. The communiqué states only that both countries support the Kadar government and are "resolutely opposed to all attempts by imperialist circles to intervene in the internal affairs of Hungary." [redacted]

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Cairo's enactment on 15 January of four laws designed to "Egyptianize" economic activities appears aimed at maintaining the momentum of nationalism and bolstering the regime politically. Egyptianiza-

tion will require most foreign firms to be sold to and completely managed by native Egyptians in the next five years.

The move will not result in any immediate economic benefits and may wipe out the remaining confidence of the Egyptian business community in the Nasr government's ability to keep the country from bankruptcy. The new laws will further discourage Western investment in Egypt.

Egyptianization of "enemy" (British and French) assets is a follow-up to the sequestration decrees issued soon after the Anglo-French intervention. The broadening of this takeover to include other foreign companies during the next five years suggests that Nasr does not plan on Western private or possibly even governmental economic aid, hoping instead for Soviet economic assistance.

Egypt obtains virtually no foreign exchange by this action, since firms operating in Egypt--including banks--would have few unencumbered monetary assets aside from small balances in Egyptian pounds. American firms will come under the five-year grace period.

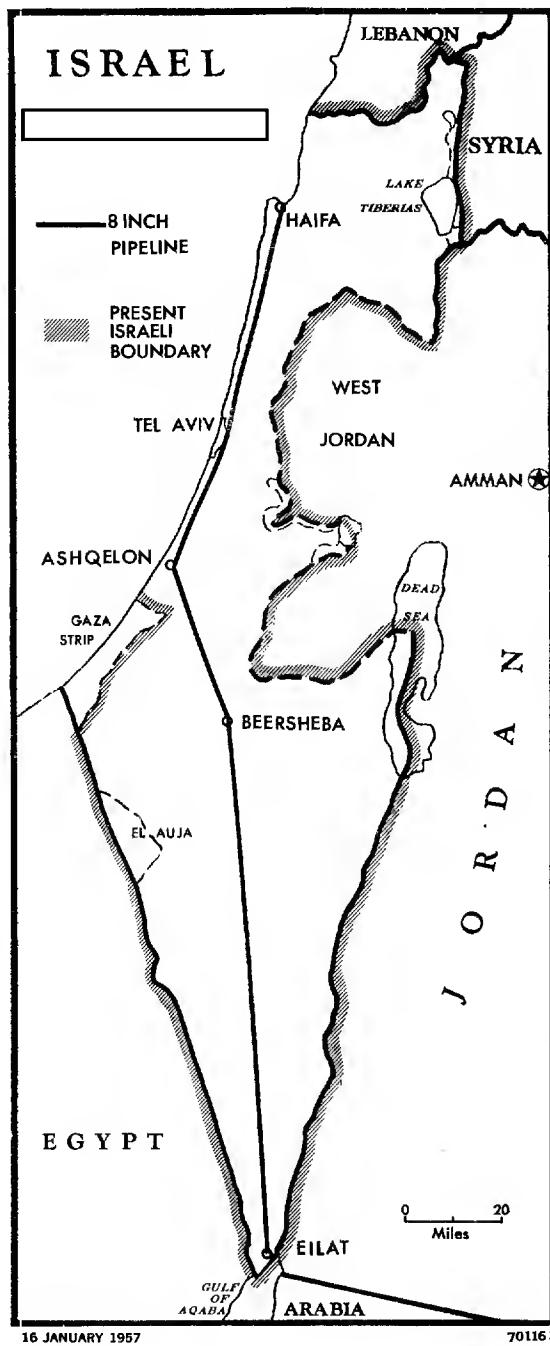
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6. ISRAEL PROMOTING EILAT-HAIFA OIL PIPELINE AS ALTERNATIVE TO SUEZ

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Eilat to Haifa, bypassing the Suez Canal, not only will give Israel a source of additional revenue, but also is being used by Israel to promote greater Western interest in securing and maintaining freedom of transit in the Gulf of Aqaba. Israel probably also sees political advantages flowing from increased Western economic interests in Israel.

According to Israeli ambassador Eban, an 8-inch line from Aqaba to Haifa will be open in a matter of weeks. The capacity of such a line is about 16,000 barrels per day. Eban said a 16-inch line is being discussed, and the "ultimate vision" is a 32-inch line which would carry 400-500,000 barrels per day, nearly one fifth of Western Europe's normal daily imports.



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France has expressed readiness to share in the cost of construction. The principal obstacle to the Israeli pipeline projects, however, is an assured source of crude oil. The Arab states would almost certainly not allow oil produced in Arab countries to transit Israel. The only likely source of supply would be Iran. Iran has shipped about 340,000 barrels daily through the Suez Canal and at least some of this could be diverted to pipelines through Israel. While the Iranian government itself would have no objections, it would be subjected to strong Arab pressure, particularly from Egypt, which would lose sizable canal revenues.

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7. BRITAIN PLANS SHARP REDUCTION IN AID TO LIBYA

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[Redacted] Foreign Office permanent under secretary Kirkpatrick has informed American representatives that Britain intends a drastic reduction in its military and economic commitments in Libya. Stressing that Britain's present financial difficulties have made necessary a broad re-examination of its foreign policy throughout the world, Kirkpatrick said that in the case of Libya a reduction is indicated because its value as a British base is steadily diminishing.

Kirkpatrick said London is considering reducing annual grant aid from the present \$11,400,000 to \$2,800,000. British forces in Libya would be reduced from 8,000 to 2,000 by the end of 1958. A contribution of \$7,700,000 toward a build-up of the Libyan army would be offered in fulfillment of an earlier promise.

Comment

The British have long sought to increase American interest in Libya but had not previously indicated that their reduced capabilities dictated such a sharp drop in their own role. Libyan prime minister Ben Halim told the American embassy in Tripoli recently that he wanted the British to stay, but preferred to have the United States take a primary role. The British claim that their shift in Libya is dictated both by financial difficulties and the need to concentrate on defending their more vital interests in oil-producing Iraq and the Persian Gulf. [Redacted]

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